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C O N F I D E N T I A L STATE 110846

E.O. 11652:GDS

TAGS: PFOR, CA

SUBJECT:CANADIAN-EC RELATIONS

REF: STATE 82961

1. CONSIDERATION IN DEPARTMENT OF CANADIAN AIDE MEMOIRE
TO EUROPEAN COMMUNITIES, FURNISHED US APRIL 23 BY CANADIAN
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AMBASSADOR, (REFTEL) HAS RAISED VARIOUS QUESTIONS WHICH

WOULD BE USEFUL EXPLORE WITH GOC (CANADIAN EMBASSY SUGGESTS RITCHIE AND DUPUY).

2. IN ASKING EC TO OPEN NEGOTIATIONS FOR TRADE AGREEMENT, AIDE MEMOIRE ASSERTS TRADE AGREEMENT WOULD (A) COMPLEMENT RATHER THAN SUPERSEDE" AND "HENCE WOULD LEAVE INTACT" EXISTING CANADA-MEMBER STATE BILATERAL ARRANGEMENTS THAT REMAIN WITHIN COMPETENCE OF MEMBER STATES; (B) "EFFECTIVELY UNDERPIN" CANADA-EC RELATIONSHIP; (C) STRENGTHEN CONSULTATION ARRANGEMENTS AND PROVIDE NEW OPPORTUNITIES TO DEVELOP FURTHER ECONOMIC COOPERATION; (D) BE FIRST STEP FOR "NEW JURIDICAL BASIS" FOR CANADA-EC TRADE RELATIONS.

3. OUR QUESTIONS RE THESE POINTS INCLUDE (A) IF TRADE AGREEMENT TO COMPLEMENT AND LEAVE INTACT EXISTING CANADA-MEMBER STATE BILATERALS, WHAT WOULD ITS SUBSTANCE BE? (B) WHY DOES CANADA FEEL NEED "UNDERPIN" CANADA-EC TRADE RELATIONS GIVEN THEIR COMMON ADHERENCE TO GATT? HOW CAN "UNDERPINNING" BE JUSTIFIED WITHOUT DETRACTING FROM GATT'S PERCEIVED ROLE AND POSITION IN INTERNATIONAL TRADE ARENA? (C) IS TRADE AGREEMENT REQUIRED TO IMPROVE EXISTING CONSULTATIONS ARRANGEMENTS? ARE THERE SPECIFIC ECONOMIC EXAMPLES OF "OTHER FIELDS" IN WHICH CANADA WOULD LIKE COOPERATE WITH EC? (D) WHY IS "NEW JURIDICAL BASIS" FOR CANADA-EC TRADE RELATION REQUIRED?

4. RE TRADE AGREEMENT ITSELF, WE NOTE IT WOULD BE MOST-FAVORED-NATION, PRESERVE CANADA'S EXISTING GRANDFATHER RIGHTS IN GATT (AND PRESUMABLY PRESERVE SIMILAR RIGHTS IN EXISTING BILATERALS). OTHER THAN GENERAL CONSULTATIONS POINT INCLUDING "OTHER MATTERS" SET OUT IN PARAGRAPH AT BOTTOM PAGE 3 AND TOP PAGE 4 OF TEXT FURNISHED US, WHAT WOULD BE SUBSTANTIVE CONTENT OF TRADE AGREEMENT?

5. DECLARATION SUGGESTED IN CANADIAN AIDE MEMOIRE REFERS TO "UNDERTAKING TO ENTER INTO NEGOTIATIONS" FOR TRADE AGREEMENT, THUS RAISING QUESTIONS SUCH AS THOSE SET OUT ABOVE. OTHERWISE THE CONCEPTS CANADIANS SUGGEST AS BASIS FOR DECLARATION SEEM NON-CONTROVERSIAL.

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6. WE RECOGNIZE CANADIAN MOTIVATION IN THIS EXERCISE STEMS FROM DOMESTIC NEED TO BE SEEN TO BE CULTIVATING CANADA'S RELATIONS WITH EC, AS WELL AS STATED CANADIAN POLICY OF "DIVERSIFICATION ITS FOREIGN RELATIONS". ON OTHER HAND, IMPORTANCE OF FOREIGN TRADE TO CANADIAN ECONOMY HAS LED US TO ASSUME THAT CANADA'S INTEREST IN SUSTAINING AND IMPROVING MULTILATERAL TRADE REGIME EMBODIED IN GATT, AND MULTILATERAL CONSULTATIONS INSTI-

TUTIONS SUCH AS OECD, IS RELATIVELY EVEN GREATER THAN OUR OWN. WHILE IT MAY WELL BE THAT EXERCISE IS "PUBLIC RELATIONS GESTURE" AND "POLITICAL SHOW BUSINESS" (EC BRUSSELS 2439), WE WOULD LIKE TO BE CERTAIN THAT WE UNDERSTAND HOW CANADIANS ASSESS RELATIVE IMPORTANCE OF EC TRADE AGREEMENT PROPOSAL AND MULTILATERAL UNDERTAKINGS. AS CANADIANS HAVE INDICATED THEY WOULD KEEP US INFORMED OF EUROPEAN REACTION TO GOC APPROACH, IT WOULD BE HELPFUL IF THEY COULD INDICATE INITIAL RETURNS, ESPECIALLY AS THEY RELATE TO TIMING PROSPECTS FOR SIGNING POLITICAL STATEMENT AND TRADE AGREEMENT.

7- WITH CANADIAN ELECTIONS CALLED FOR JULY 8, AND TRUDEAU GOVERNMENT NOW IN CARETAKER STATUS, WE SHOULD ENSURE THAT OUR MANNER OF PURSUING THIS MATTER DOES NOT BECOME ELECTION ISSUE. WE PRESUME CANADIANS WILL NOT BE PRESSING IT WITH EC UNTIL NEW GOVERNMENT IS FORMED. IN CIRCUMSTANCES, WOULD APPRECIATE EMBASSY OTTAWA RAISING QUESTIONS IN PARAS 2-5 ABOVE ORALLY REPEAT ORALLY WITH CANADIAN AUTHORITIES, WITH OTHER ADDRESSEES KEEPING WATCHING BRIEF AND REPORTING INFO THAT COMES TO THEM UNSOLICITED.

8. EMBASSY OTTAWA SHOULD MAKE CLEAR THAT THESE QUESTIONS ARE BEING ASKED TO ASSIST IN FORMULATING OUR RESPONSE TO THE CANADIAN AIDE MEMOIRE. WE WILL RESPOND IN DUE COURSE TO THE AIDE MEMOIRE AS WELL AS TO THE RELATED EC-CANADIAN STATEMENT OF PRINCIPLES. BROWN

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